Geographical Indications and Dilution: 
Reinterpreting “Distinctiveness” 
Under the Lanham Act

Peter M. Brody

Cool Water Runs Deep: Davidoff v. CVS—
Unique Production Codes Keep Products 
Off Gray Market

Karen H. Bromberg and Ellen Paltiel

Making Much Ado About Theory: 
The Chinese Trademark Law

Leah Chan Grinvald

New-School Trademark Dilution: 
Famous Among the Juvenile Consuming Public

Alexandra J. Roberts
COOL WATER RUNS DEEP:
DAVIDOFF v. CVS—
UNIQUE PRODUCTION CODES
KEEP PRODUCTS OFF GRAY MARKET

By Karen H. Bromberg and Ellen Paltiel*

I. INTRODUCTION

The Second Circuit’s June 2009 holding in Zino Davidoff SA v. CVS Corp.1—the most recent in a series of cases brought by the Swiss maker of perfumes, cigars, and other luxury items, to protect itself in the United States and abroad from competition on the gray market2—may provide guidance to other manufacturers looking for ways to exercise more control over the unauthorized resale of their products in the United States. The Second Circuit held that: (a) removal of a unique production code (“UPC”)3 from an otherwise-genuine product bearing a legitimate trademark renders the product non-genuine; (b) the sale of such a product constitutes trademark infringement because removal of a UPC interferes with a trademark holder’s right to control quality; and

* Karen Bromberg is a partner and Ellen Paltiel is an associate at Cohen & Gresser LLP. The opinions expressed in this article reflect those of the authors and do not necessarily reflect the views of Cohen & Gresser LLP or any of its clients. Ms. Bromberg and Ms. Paltiel would like to thank Evan Rosenbaum, an associate at the firm, for his assistance in the preparation of this article. Ms. Bromberg is an associate member of the International Trademark Association and a member of the Editorial Board of The Trademark Reporter®.

1. 571 F.3d 238 (2d Cir. 2009) (Davidoff v. CVS).


3. The Davidoff v. CVS court refers to the codes as “UPCs.” These are not the universal product codes often referred to as UPCs (barcodes that identify manufacturer and price), but rather are codes that are unique to each bottle of fragrance and that include information such as the time and place of production, the production line, and the ingredients used. 571 F.3d at 240-41. According to the court, the UPC may also be used “to ensnare distributors operating outside the authorized distribution and retail network and to identify importers of gray-market goods.” Id. at 244-45. We adopt the meaning of UPC used by the Davidoff v. CVS court, and use it herein interchangeably with the terms “batch code,” “lot code,” “product identification code,” and other terms that have been used in proposed legislation and by other courts to refer to similar codes.
(c) there is no need to show that removal of the UPC creates a 
"material difference" in the product. The opinion also appears to 
relieve the trademark owner from having to show that removal of 
the UPC will lead to a likelihood of consumer confusion as to the 
origin of the product. Davidoff v. CVS may broaden the scope of 
protection for trademark owners under the Lanham Act with 
respect to the gray-goods market and offers trademark owners a 
straightforward way to make their goods less susceptible to 
unauthorized distribution: mark each product with a UPC.

This article explains the significance of Davidoff v. CVS and 
its effect on trademark holders, distributors, retailers, and 
consumers. Section II presents a brief summary of relevant gray-
goods history and principles. Section III provides an overview of 
the procedural posture, facts, and holding of Davidoff v. CVS. 
Sections IV and V discuss the quality-control and material-
difference grounds for trademark infringement, respectively. 
Section VI explores the role of "consumer confusion" in quality-
control cases. Section VII provides an overview of some of the 
likely effects of the Davidoff v. CVS decision. Finally, Section VIII 
presents a practical guide for trademark owners wishing to avail 
themselves of the new protection that Davidoff v. CVS provides.

II. A BRIEF SUMMARY OF GRAY-GOODS HISTORY 
AND PRINCIPLES RELEVANT TO 
DAVIDOFF v. CVS

It is difficult for trademark owners to protect themselves against sales of their products on the gray market, that is, to 
prevent unauthorized third parties from selling the trademark 
owners’ products purchased from distributors who subvert their 
distribution contracts with the mark owners. For example, CVS is 
not an authorized retailer of Davidoff’s COOL WATER fragrance— 
the product at issue in Davidoff v. CVS—but was nonetheless able 
to secure non-counterfeit stock of the fragrance from outside 
Davidoff’s authorized distribution channels. Davidoff does not 
want its luxury products sold in drug stores and other non-luxury 
outlets but cannot always control the acts of its authorized 
distributors. Sales on the gray market—also known as "parallel

5. See Davidoff v. CVS, 571 F.3d at 241.
sales” and “intrabrand competition”—can be counted in the billions of dollars each year.\textsuperscript{7}

Trademark law has historically provided little to no protection for mark holders against gray-market competition.\textsuperscript{8} Since the 1980s, trademark owners have been seeking administrative and judicial rulings to protect themselves against gray-market competition,\textsuperscript{9} but these efforts, as well as legislative attempts to amend the Lanham Act to include such protection, have largely been unsuccessful.\textsuperscript{10} From 1998 to 2000, members of the House

6. See K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 286-87 (1988) (describing several different gray-market sales scenarios). Historically, gray goods are those intended by the trademark owner for distribution and sale abroad—usually at lower prices—and imported into the United States without the trademark owner’s authorization.


8. See Olympus Corp. v. United States, 792 F.2d 315, 316, 320-21 (2d Cir. 1986) cert. denied, 486 U.S. 1042; DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 624 (2d Cir. 1980); Monte Carlo Shirt, Inc. v. Daewoo Int’l (America) Corp., 707 F.2d 1054, 1057-58 (9th Cir. 1983). The exception found in A. Bourjois & Co. v. Katzal, 260 U.S. 689, 691-92 (1923) has been limited to the special facts of that case. See Olympus, 792 F.2d at 321-22 (citing Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924)); NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir.), cert. denied, 484 U.S. 851 (1987). Katzal involved an American company that had specifically purchased, by contract, the exclusive right to use a French company’s trademark and all its goodwill in the U.S. The French manufacturer, which had explicitly forgone all its rights to the trademark in the U.S., was enjoined from selling competing products in the U.S. Katzal is the only exception the Supreme Court has recognized to the general rule that trademark law does not reach the sale of genuine goods bearing true marks, even where the sale is not authorized by the mark owner.

9. Unsuccessful efforts by trade associations to secure changes in the United States Customs Service regulations, which permit parallel importation of gray-market goods, were followed by generally unsuccessful efforts to have those regulations judicially declared invalid. Olympus, 792 F.2d at 316; see also K Mart, 486 U.S. at 290 (noting circuit split and holding the regulations’ common-control exception valid and authorized-use exception invalid). Similar relief was sought from, but denied by, the Court of International Trade. Olympus, 792 F.2d at 316 (citing Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int’l Trade 1984), aff’d, 761 F.2d 1552 (Fed. Cir. 1985)). The Coalition to Preserve the Integrity of American Trademarks (“COPIAT”) brought several unsuccessful cases to invalidate customs regulations allowing the importation of gray goods, and also backed several cases, again without success, seeking Lanham Act protection from gray-market sales. See, e.g., K Mart, 486 U.S. at 281 (COPIAT was the named respondent in two of the three consolidated cases). Trademark owners achieved a limited victory in Lever Bros. v. United States, 981 F.2d 1330 (D.C. Cir. 1993), in which the D.C. Circuit held invalid the “affiliate exception” to the prohibition of importation of gray-market goods where the imported goods were “materially different” from domestic goods. Id. at 1338-39. The Customs Service later codified its interpretation of the “Lever Rule” in 19 C.F.R. §§ 133.2, 133.12, and 133.23.

10. Between 1987 and 1991, Sen. Hatch (R-Utah) repeatedly introduced the Trademark Protection Act that would prohibit the importation or sale of gray-market goods. See S.
and Senate proposed the Antitampering Act, which would have prohibited the importation or sale of products with removed or altered UPCs, but this legislation was not passed.\footnote{11}

In case law interpreting the Lanham Act, the “oft repeated maxim” holds that “[a]s a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner.”\footnote{12} The Lanham Act protects trademark owners from having to compete against sales that the Act explicitly prohibits, such as the sale of counterfeit goods.\footnote{13} The Act is also intended to protect the public against confusion.\footnote{14} Trademarks are primarily meant to designate the origin of goods,\footnote{15} and under the Lanham Act, the touchstone for liability in trademark infringement cases has been the likelihood of consumer confusion.\footnote{16} Until recently, the Lanham Act had been

\begin{itemize}
\item 1671, 100th Cong. (1987); S. 2903, 100th Cong. (1988); S. 626, 101st Cong. (1989); S. 894, 102d Cong. (1991); see also S. AMDT. 2511, 100th Cong. (1988) (to amend the Retail Competition Enforcement Act of 1987, S. 430, 100th Cong. (1987) (proposal to amend Sherman Act)). It should also be noted that in 1988 and 1989, Sen. Chafee (R-R.I.) and Rep. Chandler (R-Wash.) introduced identical bills called the Price Competitive Products Act that would have permitted the importation or sale of gray-market goods. See S. 1097, 100th Cong. (1988); H.R. 4803, 100th Cong. (1988); H.R. 771, 101st Cong. (1989). Since this legislative initiative was also unsuccessful, it seems that neither those who favor curtailing the gray market nor those who favor protecting it can claim that legislative inaction is proof of political consensus on the issue.


13. 15 U.S.C. § 1127 (defining “counterfeit” as “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark”).


16. See generally Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492 (2d Cir. 1961) (outlining the governing multiple-factor test for likelihood of consumer confusion in the Second Circuit); Original Appalachian Artworks v. Granada Elecs., 816 F.2d 68, 74 (2d Cir.), cert. denied, 484 U.S. 847 (1987) (Cardamone, J., concurring); Paul Mitchell, 862 F. Supp. at 1023; see also NEC Elecs., v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987). The “first sale” or “exhaustion” rule also protects unauthorized distributors of gray goods, because the rule permits resale of genuine goods as long as they are identical to those authorized for importation into the United States; as a general rule, a distributor who resells unaltered branded goods does not infringe their trademarks, even if the sale is not authorized by the trademark owner, because the first authorized sale of the goods exhausts the owner’s trademark rights. See Original Appalachian Artworks, 816 F.2d at 74. This is true as long as the distributor does not create confusion, either by changing the goods, or implying an affiliation with the trademark owner; or otherwise. Id.; Dow Jones & Co. v. Int’l
thought to offer no remedies for the sale of authentic trademarked goods on the gray market because such goods were not deemed to cause confusion. Courts had repeatedly held, as a matter of law, that consumer confusion was not possible where the sale of genuine products was concerned, and that the Lanham Act therefore could not be used by trademark holders to keep gray goods from the market.\textsuperscript{17}

Nevertheless, courts and those who represent trademark owners have worked around the gray-goods problem in various ways, two of which are relevant to the \textit{Davidoff v. CVS} decision. First, with respect to goods that differ materially from their genuine counterparts, a “material difference” has been deemed a ground for both a finding of non-genuineness and a likelihood of consumer confusion, and the existence of a material difference that is likely to cause consumer confusion has become one of the pivotal determinants of Lanham Act infringement by gray goods in the Second Circuit\textsuperscript{18} and throughout the United States.\textsuperscript{19}

Second, interference with the trademark owner’s right to control the quality of its goods—even if the interference results in no material difference in the product—can lead to a finding of

\textsuperscript{17} See, e.g., \textit{Prestonettes, Inc. v. Coty}, 264 U.S. 359, 368-69 (1924); \textit{Polymer Tech. Corp. v. Mimran (Polymer II)}, 37 F.3d 74, 80 (2d Cir. 1994); \textit{NEC Elecs.}, 810 F.2d at 1509; \textit{Olympus Corp. v. United States}, 792 F.2d at 315, 316 (2d Cir. 1986).

\textsuperscript{18} See, e.g., \textit{Original Appalachian Artworks,} 816 F.2d at 73 (CABBAGE PATCH KIDS dolls with Spanish papers, meant for sale in Spain, differed materially from otherwise identical American CABBAGE PATCH KIDS dolls and were therefore not genuine, even though manufactured by a licensee of the trademark holder; customers were confused into buying the Spanish dolls, whose “adoption papers” and “birth certificates” were not in English and not usable).

\textsuperscript{19} See, e.g., \textit{Société des Produits Nestlé, SA v. Casa Helvetia, Inc.}, 982 F.2d 633, 641-44 (1st Cir. 1992) (defendant’s unauthorized sale of Venezuelan-made PERUGINA chocolates held infringing where differences between them and the authorized Italian-made PERUGINA chocolates, including differences in ingredients, packaging, quality-control measures, and price, were likely to cause consumer confusion); \textit{Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC}, 562 F.3d 1067, 1073-74 (10th Cir. 2009) (reseller’s radar detectors, without warranties or service commitments, differed materially from manufacturer’s radar detectors with warranties; absent adequate disclosure, differences were likely to affect consumers’ decisions to purchase, and consumers would be confused into purchasing radar detectors without warranties); \textit{Kia Motors Am., Inc. v. Autoworks Distrib., Civ. No. 06-156, 2009 WL 499543, at *3-4 (D. Minn. Feb. 26, 2009)} (KIA automobile parts sold by unauthorized vendors were materially different because they were not covered by trademark owner’s warranty).
Lanham Act infringement. Courts rely far less frequently on this quality-control ground than the material-difference ground, and it has developed primarily in the Second Circuit. This Article will give particular attention to the quality-control ground of Davidoff v. CVS, because the Second Circuit emphasized this ground in its opinion, and because this ground is less common and less well understood. For example, it is easy to mistake a material-difference case for a quality-control case, where courts treat differences in a distributor's or retailer's quality-control measures as simply a type of material difference. A trademark owner claiming infringement based on the quality-control ground must generally show that it follows quality-control measures that are bona fide and not pretextual. It is not clear whether the quality-

20. See, e.g., El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987) (unauthorized goods—though manufactured by agreement with the trademark holder, bearing authorized trademarks, and identical to their authorized counterparts—were not genuine, and therefore infringing, where the goods were distributed without a certificate of inspection that was part of the owner's quality-control procedures); Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104, 107 (4th Cir. 1991) (unauthorized seller of SHELL oil products that undermined Shell's quality-control standards rendered the oil products not genuine, and therefore infringing, even though no difference in the oil was shown).

21. See Enesco Corp. v. Price/Costco Inc., 146 F.3d 1083, 1087 (9th Cir. 1998) (“the quality control theory [has been] largely developed by the Second Circuit”); Dan-Foam A/S v. Brand Named Beds, 500 F. Supp. 2d 296, 315 (S.D.N.Y. 2007) (“The Second Circuit has developed its own body of trademark infringement law based on a trademark owner’s right to control the quality of its goods separate and apart from the material differences theory of infringement used in gray goods cases.”).

22. A true quality-control case—as distinct from a material-difference case—is one in which there is an interference with the trademark holder’s own quality controls, not simply a material difference between the trademark holder’s and another party’s quality controls. Compare, e.g., El Greco, 806 F.2d 392 (quality-control case: infringement based on unauthorized manufacturer's failure to follow trademark owner's inspection protocol), with Nestlé, 982 F.2d 633 (material-difference case: infringement based on differences between Italian and Venezuelan products, including difference in quality-control methods used by the two manufacturers; it was neither pled nor found that the unauthorized chocolate manufacturer had interfered with the authorized chocolate manufacturer's own quality controls).

23. See, e.g., Nestlé, 982 F.2d at 642 (difference in quality-control methods used by authorized and unauthorized manufacturers of chocolates was just one of “[a] catalog of” five material differences that led to finding of infringement); Iberia Foods Corp. v. Romeo, 150 F.3d 298, 304 (3d Cir. 1998) (“the owner’s rigorous quality control and inspection procedure . . . has often been recognized as the basis of a material difference . . . ”).

24. See, e.g., Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3, 6 (2d Cir. 1996) (infringement can only be premised on interference with quality-control measures if it is shown that (i) the measures are legitimate, substantial, and nonpretextual; (ii) the mark owner abides by the measures; and (iii) sales of products that fail to conform to these procedures will diminish the value of the mark); Shell Oil, 928 F.2d at 106 (Shell’s “stringent” quality controls included use of dedicated lines, pumps and tanks, and steam
control precedents for finding infringement properly conform to the Lanham Act’s requirement that the infringing goods must be likely to lead to consumer confusion as to the source of the goods.25

Finally, as mentioned, there have been unsuccessful legislative attempts to prohibit the importation or sale of products with removed or altered UPCs. Several trademark owners have brought suits, however, seeking to establish judicially that interference with a UPC is trademark infringement: some of the decisions in these cases turn on whether the removal of the UPC renders the goods materially different,26 and others turn on whether the removal of the UPC unlawfully interferes with the trademark owner’s right to control the quality of its goods.27 In Davidoff v. CVS, the Second Circuit became the first circuit court to base infringement in a UPC-removal case exclusively on the quality-control ground.28 This holding is particularly significant in light of Second Circuit precedents—including Davidoff v. CVS itself—implying that infringement based on the quality-control ground does not require a showing of likelihood of consumer

25. Compare, e.g., Shell Oil, 928 F.2d at 107 (likelihood of consumer confusion as to the source of the bulk oil was key to the Fourth Circuit’s finding infringement for non-compliance with the manufacturer’s quality-control procedures), with El Greco, 806 F.2d at 392 (no inquiry into likelihood of consumer confusion). A more complete discussion of this question is undertaken in Section VI, infra.

26. See, e.g., Davidoff v. PLD, 263 F.3d at 1304 (removal of UPCs created material difference; court found infringement because etching to remove UPC degraded the appearance of the bottles); John Paul Mitchell Sys. v. Randalls Food Mkts., 17 S.W.3d 721, 736 (Ct. App. Tex. 2000) (no infringement for removal of UPCs, where no evidence that removal defaced bottle or otherwise changed the product); Graham Webb Int’l L.P. v. Emporium Drug Mart, Inc., 916 F. Supp. 909, 916 (E.D. Ark. 1995) (no infringement for removal of batch codes, where only minor aesthetic damage and product otherwise identical). See also Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC, 562 F.3d 1067, 1073 (10th Cir. 2009) (removal of serial numbers created material difference; infringement found where manufacturer would not honor warranty without serial numbers).


28. 571 F.3d at 240.
confusion. The result gives trademark holders a new advantage against gray-market sales. As long as a trademark owner can show that its use of UPCs is part of a bona fide quality-control program, as outlined in Section VIII, infra, it may now rely on the UPC to help deter unauthorized sales. Distributors and wholesalers who deal in gray-market goods will have to choose whether to remove UPCs and risk being held liable under Davidoff v. CVS (liability is almost assured, since there is no need to show either: (i) that removal of the UPC is a material difference; or (ii) a likelihood of consumer confusion), or leave the tracking UPCs on and risk losing their contracts with trademark holders who can use the UPCs to discover which of their distributors are diverting goods to the gray market. Given the reliance of other circuits on Second Circuit precedents in this developing area of trademark law, the Davidoff v. CVS decision could well have effects beyond the court’s own jurisdiction.30

III. THE DAVIDOFF v. CVS DECISION

Davidoff has been a high-end personal-consumption brand since 1911, and it launched its COOL WATER fragrance for women in 1997.31 As part of its quality-control program, Davidoff placed a UPC on each unit of its COOL WATER products.32 According to Davidoff, its UPC system helped investigators and retailers, as well as officers of the U.S. Customs and Border Protection Service, detect and prevent the sale of counterfeit

29. See infra Section VI, discussing El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986); Polymer I, 975 F.2d 58 (2d Cir. 1992); Polymer II, 37 F.3d 74 (2d Cir. 1994); and Warner-Lambert, 86 F.3d at 3.


31. Davidoff v. CVS, 571 F.3d at 240.

32. Id.
products, and helped the company identify defective products, effectuate targeted recalls, and remedy production defects.

Davidoff had repeatedly declined to sell its “prestige” products to CVS, the drug store chain, but CVS consistently managed to procure Davidoff products—both counterfeits and gray goods—and offer them for sale. On two occasions prior to the events that precipitated this suit—in 1998 and 2005—Davidoff had discovered that CVS was selling counterfeit COOL WATER products and had sent cease-and-desist letters to CVS. CVS assured Davidoff that it would source only from authorized distributors.

Davidoff’s original complaint against CVS sought relief only as to CVS’s marketing of counterfeit Davidoff products. While inspecting CVS’s inventory, however, Davidoff discovered 16,600 units of COOL WATER fragrance from which the UPC had been removed, by cutting out the UPC section of the product’s box or bottle label, by using chemicals to wipe the UPC off the package, or label, or by grinding away the UPC on the bottoms of bottles. CVS asserted that the goods with UPCs removed were genuine COOL WATER goods and not counterfeits, and it refused to stop selling these gray goods. Davidoff amended its complaint to include claims for relief based on CVS’s sale of gray goods and then moved for a preliminary injunction forbidding CVS from selling Davidoff goods with the UPCs removed.

The district court granted Davidoff’s motion, reasoning that removal of the UPCs impaired the trademarks by interfering with Davidoff’s ability to identify counterfeits and to control the quality of its products by identifying and recalling defective products. The court concluded that Davidoff was likely to succeed on the

33. Id. at 240-41.
34. Id. at 241.
36. Davidoff v. CVS, 571 F.3d at 241.
37. Id.
38. Id.
39. Id. at 240-41.
40. Id. at 241-42.
41. Davidoff did not test the 16,600 units for authenticity. Id. at 242 n.3.
42. Davidoff v. CVS, 571 F.3d at 242.
43. Id.
44. Id.
theory that CVS’s sale of trademarked products with the UPCs removed constituted trademark infringement. The district court stated that finding infringement based on removal of the UPC could be seen as an “extension of the law” or, at least, “as an application of existing law to a novel set of facts,” because it was the first time the use of UPCs was recognized as a quality-control measure. This is the decision from which CVS appealed and lost.

The Second Circuit affirmed the district court’s grant of a preliminary injunction against CVS, finding that Davidoff was likely to succeed on two independent grounds: (i) removal of the UPCs interfered with Davidoff’s legitimate quality-control procedures; and (ii) the goods with UPCs removed were materially different from Davidoff’s genuine, trademarked product.

IV. THE INDEPENDENT, “QUALITY-CONTROL” GROUND

The court held that Davidoff was “likely to succeed on the merits of its trademark infringement claim because the UPC acts as a quality control mechanism which enables Davidoff to protect the reputation of its trademarks by identifying counterfeits and by protecting against defects.” In coming to this conclusion, the Second Circuit relied on three of its own quality-control precedents.

First, in El Greco Leather Products Co. v. Shoe World, Inc., the court found that goods—though manufactured by agreement with the mark holder and bearing the holder’s authorized trademark—were not genuine where the mark holder had not given the goods a certificate of inspection that was part of the owner’s quality-control procedures. El Greco established that, even where the goods are otherwise identical, interference with the trademark holder’s right to control quality is sufficient to find infringement.

46. Id. at *8.
47. Id. at *5.
48. Davidoff v. CVS, 571 F.3d at 246.
49. Id. at 240.
50. 806 F.2d 392 (2d Cir. 1986).
51. Id. at 395-96.
52. Id. at 395 (the CANDIE’S shoes sold by the mark owner and the infringing manufacturer looked identical, but the shoes were found to infringe because they were sold without having received the necessary certificate of inspection, a function of quality control).
Second, in the two appeals in *Polymer Technology Corp. v. Mimran*, the court reiterated that goods are not genuine if they do not conform to the trademark holder's quality-control standards, but ultimately held that Polymer did not follow its own claimed quality-control measures with sufficient consistency to warrant a finding that these controls had been circumvented by the retailer in a manner that would result in a finding of trademark infringement.

Finally, in *Warner-Lambert Co. v. Northside Development Corp.*, the Second Circuit laid out the test for finding trademark infringement for interference with quality-control measures: “(i) the asserted quality-control procedures must be established, legitimate, substantial, and nonpretextual; (ii) the owner must abide by these procedures; and (iii) sales of products that fail to conform to these procedures will diminish the value of the mark.”

The *Davidoff v. CVS* court affirmed the district court’s finding that all three prongs of the *Warner-Lambert* test were met. The court found that: (i) Davidoff's quality-control procedures were "legitimate, substantial, and nonpretextual," where the evidence and testimony showed that the UPC system helped Davidoff effectuate targeted recalls of defective products and facilitated Davidoff's ability to identify counterfeit products by allowing it to scan for products that either lack a UPC or exhibit a UPC known to be used by counterfeiters; (ii) Davidoff's regular training of retailers, private investigators, and U.S. Customs officers in the use of UPCs to identify and seize counterfeit goods demonstrated that Davidoff “abides by these procedures;” and (iii) “the loss of these protections against counterfeits would expose Davidoff to a higher incidence of substantial sales of counterfeit goods, which are invariably non-conforming and inferior, and thus harm Davidoff’s reputation and diminish the value of its trademark.”

53. *Polymer I*, 975 F.2d 58 (2d Cir. 1992); *Polymer II*, 37 F.3d 74 (2d Cir. 1994).
54. *Polymer II*, 37 F.3d at 80.
55. 86 F.3d 3, 6 (2d Cir. 1996). While not a case about gray goods, and not strictly a case about UPCs, the date stamps on the HALLS cough drops in *Warner-Lambert* are analogous to UPCs. The HALLS mark holder was entitled to a preliminary injunction against the sale of cough drops by a wholesaler who had altered the original shipping containers to conceal their date stamps, part of the owner's procedures for making sure its products were fresh when sold. These “codes” were held, pursuant to the three-part test, to embody a valid quality-control program sufficient to state a claim for infringement under the Lanham Act.
56. *Davidoff v. CVS*, 571 F.3d at 244-45.
57. *Id.* at 244.
58. *Id.*
CVS had contended that the UPC system was merely a pretext, that Davidoff had never enacted the kind of targeted recall Davidoff claimed the UPC system was designed to facilitate, and that the true purpose of the UPC system was to allow Davidoff to search out gray-market goods.\(^59\) The court responded that:

\[t\]he district court properly relied on the testimony of Davidoff’s Vice President for Regulatory Affairs and Quality Assurance, among others, that Davidoff had relied on the UPC system to assist with quality issues, including under-filled or over-filled bottles, defective dispensers, and improper packaging. . . . Nor does the fact that the UPC system also may allow Davidoff to ensnare distributors operating outside the authorized distribution and retail network and to identify importers of gray-market goods defeat its claim. What matters is whether Davidoff’s codes are a bona fide control device upon which Davidoff actually relies. If the codes served only to help Davidoff exert control over the distribution and sales network, different questions would arise. But the mere fact that the UPC system provides Davidoff additional benefits that may be unrelated to quality control does not negate its legitimate function in protecting Davidoff’s marks from quality defects and counterfeiting.\(^60\)

CVS also noted that Davidoff had not shown that any of CVS’s sales involved inferior products. CVS argued that the purpose of the injunction in \textit{Warner-Lambert} was to protect the mark holder against distribution of stale, inferior cough drops.\(^61\) But the fact that none of the COOL WATER fragrance in \textit{Davidoff v. CVS} had been shown to be inferior was deemed irrelevant by the court: “for purposes of analyzing trademark infringement involving interference with quality control procedures, ‘the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain.’”\(^62\)

Finally, CVS argued that the Lanham Act does not affirmatively find it a trademark infringement to sell an authentic product with UPCs altered or removed,\(^63\) and directed the court’s attention to the failed legislative attempts to make it unlawful to

\(^{59}\) \textit{Id.} at 245.
\(^{60}\) \textit{Id.}
\(^{61}\) \textit{Id.}
\(^{62}\) \textit{Davidoff v. CVS}, 571 F.3d at 245-46 (quoting \textit{El Greco}, 806 F.2d 392, 395 (2d Cir. 1986)).
\(^{63}\) \textit{Id.} at 243.
remove or alter a UPC, or to import products with removed or altered UPCs.\textsuperscript{64} The court, while conceding both that there was no affirmative prohibition in the Lanham Act, and that legislative attempts to amend the Act to include such an affirmative prohibition have failed, countered that legislative failure to make the prohibition explicit does not make the conduct permissible.\textsuperscript{65}

Before proceeding to the alternate “material-difference” ground for holding CVS liable, the court held that tampering with Davidoff’s UPCs was a sufficient and independent ground for finding infringement and that trademark holders need not show that their products are different in any other way to avail themselves of this new protection for UPCs. The court undertook no analysis of whether this interference with quality control presented a likelihood of consumer confusion as to origin. The result appears to be that if a trademark owner establishes and abides by a bona fide quality-control program that includes the use of UPCs, removal of the UPCs by a distributor or retailer will result in \emph{per se} infringement, relieving the mark holder from having to prove either (i) that the difference is “material” or (ii) that there is any likelihood of consumer confusion. These issues will be explored further in Section VI, \textit{infra}.

\textbf{V. THE ALTERNATE, “MATERIAL-DIFFERENCE” GROUND}

Although it held that interference with quality control alone—without any other difference in the product—was sufficient to find trademark infringement,\textsuperscript{66} the Second Circuit also held, as an alternate ground, that CVS’s damage to Davidoff’s packaging did, in fact, detract from the value of the product and that CVS was therefore selling goods that were materially different from (and inferior to) Davidoff’s genuine trademarked product.\textsuperscript{67} “In the

\begin{itemize}
  \item \textsuperscript{65} Davidoff v. CVS, 571 F.3d at 243. The Second Circuit stated that the failure of legislative attempts to amend legislation can sometimes be interpreted to mean that “the existing legislation already incorporate[s] the offered change” or that “the preexisting law already covered the point, albeit less clearly.” \textit{Id.} By finding infringement in this case, the court thus perhaps accomplished, at least for Second Circuit purposes, what the failed Antitampering Act had sought to accomplish.
  \item \textsuperscript{66} \textit{Id.} at 246.
  \item \textsuperscript{67} \textit{Id.}
\end{itemize}
context of gray-market goods, in comparing the trademark holder’s product with the gray-market product, we apply a low threshold of materiality, requiring no more than a slight difference which consumers would likely deem relevant when considering a purchase of the product.”

Although no material differences were found in the actual fragrance, the court noted that the removal of the UPC left obvious marks on the packaging (such as the grinding on the bottoms of bottles and pieces cut from the boxes and labels) that amounted to material differences between the gray units and genuine COOL WATER products.

The purpose of the material difference test is to assist courts in determining whether allegedly infringing products are likely to cause confusion in the marketplace and undermine the goodwill the trademark owner has developed in its trademarked goods. The court noted that, where “luxury goods” are concerned, “[f]or a seller to damage the packaging by cutting away portions or applying acids to blur markings detracts from the value of the product” and makes the item look like “a sketchy, cheap purchase from an illicit source or of the sort given by Tony Soprano to Carmela.” The court found that these material differences were likely to lead to consumer confusion: “It is a logical inference that consumers may regard a product whose packaging has been tampered [with] as inferior and perhaps suspicious. Mutilation of packaging to conceal markings may lead the consumer to suspect that the item is stolen merchandise, or is defective and has been diverted from a recall, or is otherwise untrustworthy.”

The court thus found that Davidoff was likely to succeed on its second, alternative trademark infringement claim that CVS was selling, under Davidoff’s mark, goods that were materially different from Davidoff’s genuine trademarked products.

68. Id. (citing, inter alia, Société des Produits Nestlé, SA v. Casa Helvetia, Inc., 982 F.2d 633, 641 (1st Cir. 1992) (“Any higher threshold would . . . unduly subject consumers to potential confusion.”)).
69. Id. at 246.
70. Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC, 562 F.3d 1067, 1074 (10th Cir. 2009).
71. Davidoff v. CVS, 571 F.3d at 243.
72. Id.
73. Id. It is difficult to know whether the marring of the packaging and the grinding of the bottles—the material differences on which the court based its “material-difference” holding—also had an unacknowledged impact on the court’s “quality-control” holding. There remains a question whether removal of UPCs will be deemed sufficient interference with quality control where this interference is not visible to the consumer—either because removal is easy (no grinding or cutting required) or because fake numbers are seamlessly substituted for the real ones, or perhaps because some technology will allow the codes to be
The *Davidoff v. CVS* "material-difference" holding is neither innovative nor new: visible material differences like the ones relied on by the Second Circuit have long been a basis for finding a likelihood of consumer confusion and trademark infringement,\(^7^4\) and even non-physical material differences have begun to be held as grounds for infringement.\(^7^5\) The Second Circuit stated, however, that "whether . . . retailers and consumers are aware of how to obtain information from the UPC number is of no significance" and "whether consumers and/or retailers understand the codes is irrelevant to the codes’ performance of their function."\(^7^6\) A consumer who does not understand the purpose or operation of a UPC is unlikely to consider its presence or absence relevant when deciding whether to purchase the product to which it is (or is not) affixed.\(^7^7\) This raises a significant question about the future of the material-difference ground: will goods with UPCs invisibly removed be deemed materially different enough to support an independent finding of infringement on the material-difference ground? If customers are unaware of the removal of an invisible UPC, defendants will argue that consumers cannot possibly deem readable only with some device and otherwise invisible. The rationale for the *Davidoff v. CVS* quality-control holding seems sufficient to extend liability to tampering even with such invisible UPCs, 571 F.3d at 245 ("whether Davidoff’s retailers and consumers are aware of how to obtain information from the UPC number is of no significance"), but it remains to be seen how a case presenting such UPCs would be decided.

\(^7^4\) See, e.g., Société des Produits Nestlé, SA v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992) and its progeny.

\(^7^5\) See, e.g., Kia Motors Am., Inc. v. Autoworks Distrib., Civ. No. 06-156, 2009 WL 499843, at *3-4 (D. Minn. Feb. 26, 2009) (defendants’ car parts were materially different because they lacked warranty coverage provided by trademark owner); Beltronics, 562 F.3d at 1073-74 (reseller’s radar detectors, without warranties or service commitments, differed materially from manufacturer’s radar detectors with warranties; differences were likely to affect consumers’ decisions to purchase, and consumers would be confused into purchasing radar detectors without warranties). The Federal Circuit has held that “physical material differences are not required to establish trademark infringement . . . because trademarked goods originating from the trademark owner may have nonphysical characteristics associated with them, including services, such that [the sale of] similar goods lacking those associated characteristics . . . may mislead the consumer and damage the owner’s goodwill.” SKF USA Inc. v. Int’l Trade Comm’n, 423 F.3d 1307, 1312 (Fed. Cir. 2005). (Note that no infringement was found in this last case because the manufacturer’s United States sales were not substantially all accompanied by the post-sale services it had asserted as the material difference between its goods and the gray-market imports.)

\(^7^6\) *Davidoff v. CVS*, 571 F.3d at 245.

\(^7^7\) See *Nestlé*, 982 F.2d at 641 (stating that “low” threshold of materiality is “the existence of any difference between the registrant’s product and the allegedly infringing gray good that consumers would likely consider to be relevant when purchasing a product”).
this difference relevant when considering whether to purchase the product.\textsuperscript{78}

As noted in Section II, supra, differences in the quality-control measures used by an unauthorized manufacturer or distributor are often treated as a species of “material difference,” and liability in these cases is actually based on the material difference that these different quality-control measures leave on the infringing goods, rather than on any interference with the trademark owner’s own quality-control measures.\textsuperscript{79} Courts have been in disagreement about whether the removal of UPCs from gray goods is a sufficient ground for trademark infringement, and most have reframed the issue thus: whether the removal of UPCs is a material difference sufficient to render the product non-genuine and support a finding of likelihood of confusion necessary for trademark infringement.\textsuperscript{80}

For example, in \textit{John Paul Mitchell Systems v. Pete-N-Larry’s, Inc.}, the maker of Paul Mitchell hair products and its authorized distributor sought to enjoin retailers from selling gray-market Paul Mitchell products with UPCs removed.\textsuperscript{81} Paul Mitchell claimed that the defendants were obliterating the UPCs to conceal the identity of the intermediate sellers and that the UPCs were the only effective way to identify products for quality-control purposes in the event that a recall of defective or outdated products became necessary.\textsuperscript{82} Although Paul Mitchell’s complaint alleged that defendants’ sale of the products interfered with Paul Mitchell’s ability to control the quality of its products, the court found “the pivotal question in the instant case becomes whether there exists a material difference between the products sufficient to create the likelihood of consumer confusion.”\textsuperscript{83} The Paul Mitchell UPCs, like those in \textit{Davidoff v. CVS}, were not removed seamlessly, but left obvious marks on the bottles. The District Court for the Western District of New York found that a product is not truly genuine unless it is manufactured and distributed under quality controls

\textsuperscript{78} Id. ("[T]he existence of any difference . . . that consumers would likely consider to be relevant when purchasing a product creates a presumption of consumer confusion.").

\textsuperscript{79} See text and accompanying footnote, supra note 23; PepsiCo v. Giraud, 7 U.S.P.Q. 1371, 1373 (D.P.R. 1988) (finding differences—in container volume, packaging, quality control, and advertising participation—to be material); \textit{Kia Motors Am.}, 2009 WL 499543, at *3-4 (KIA automobile parts sold by unauthorized vendors were materially different because they were not covered by trademark owner’s warranty).

\textsuperscript{80} See text and accompanying footnote, supra note 26.

\textsuperscript{81} 862 F. Supp. 1020, 1022 (W.D.N.Y. 1994).

\textsuperscript{82} Id. at 1022, 1026.

\textsuperscript{83} Id. at 1023 (citing \textit{Nestlé}, 982 F.2d 633, 640 (1st Cir. 1992); \textit{Original Appalachian Artworks v. Granada Elecs.}, 816 F.2d 68, 73 (2d Cir. 1987).
established by the manufacturer,\textsuperscript{84} and then mixed together principles from both the “quality-control” and “material-difference” infringement grounds, first stating that, “it cannot be said that the products with obliterated codes are genuine as a matter of law in view of the physical change the obliteration ha[s] worked on the bottles,” and then citing the Second Circuit’s \textit{Polymer I}\textsuperscript{85} (a quality-control case) for the proposition that the “repackaging of trademarked products interfering with quality-control efforts raises a Lanham Act claim.”\textsuperscript{86}

Similarly, in \textit{Davidoff & Cie, SA v. PLD International Corp.}, the Eleventh Circuit chose to decide a UPC-removal case as a “material-difference” case, even though the district court in that case had treated removal of the UPCs as a quality-control issue.\textsuperscript{87} In \textit{Davidoff v. PLD}, authorized Davidoff retailers were selling \textit{COOL WATER} products earmarked for overseas or duty-free sales to an unauthorized distributor, PLD, who was reselling them to discount stores such as Walgreen’s, Marshall’s, and Costco.\textsuperscript{88} By the time PLD acquired the units, the UPCs on the bottoms of the boxes were covered by white stickers, and the UPCs on the bottles had been obliterated with an etching tool.\textsuperscript{89} According to PLD, the UPCs were removed to prevent Davidoff from discovering which authorized retailer sold the fragrances to PLD, because Davidoff would stop selling to those vendors.\textsuperscript{90} The Eleventh Circuit held the unauthorized resale of the materially different \textit{COOL WATER} units would create a likelihood of consumer confusion and therefore infringed Davidoff’s trademarks.\textsuperscript{91} The Eleventh Circuit

\textsuperscript{84.} \textit{Id.} at 1025.
\textsuperscript{85.} \textit{Polymer I}, 975 F.2d 58 (2d Cir. 1992).
\textsuperscript{86.} \textit{Paul Mitchell}, 862 F. Supp. at 1027. Although the \textit{Davidoff v. CVS} court did not mix the two standards the way the \textit{Paul Mitchell v. Pete-N-Larry’s} court did, it remains a question whether it would truly have premised liability on the interference with quality-control ground alone had there been no other physical changes in the \textit{COOL WATER} product packaging.
\textsuperscript{87.} 263 F.3d 1297, 1300 (11th Cir. 2001).
\textsuperscript{88.} \textit{Id.} at 1299.
\textsuperscript{89.} \textit{Id.}
\textsuperscript{90.} \textit{Id.}
\textsuperscript{91.} \textit{Id.} \textit{Davidoff v. PLD} was the first time the Eleventh Circuit found that gray goods could be deemed infringing, and the court wrote that “we adopt from our sister circuits their exception to this general rule” that trademark infringement does not apply to gray goods. \textit{Id.} at 1299. In commenting on the case, one author wrote that the Eleventh Circuit “maltreated existing gray-market case law” and “violated United States Supreme Court holdings” which historically have denied Lanham Act and other protection against the sale of gray goods. Wooden, \textit{supra} note 7, at 601 (by finding infringement, the Eleventh Circuit misinterpreted two veins of Supreme Court case law: (1) case law interpreting the role of
noted that the district court had also based its finding of infringement on interference with Davidoff's UPC-based quality-control system, and cited the Second Circuit's Warner-Lambert decision. But the Eleventh Circuit based its ruling on material differences alone.

Davidoff v. PLD is instructive for the different way it handled facts very similar to those before the Second Circuit in Davidoff v. CVS. Both cases presented otherwise genuine Davidoff COOL WATER products from which the UPCs had been removed or covered. While the Second Circuit held that it was infringement to tamper with the UPCs because this interfered with Davidoff's right to control quality, the Eleventh Circuit found infringement based only on the material difference this interference worked on the goods. The distinction between the cases may seem slight, but the impact of the Second Circuit's decision may be much farther-reaching, because the quality-control ground does not rely on a case-by-case analysis of material differences, but rather on a per se prohibition against interfering with quality-control UPCs.

VI. LIKELIHOOD OF CONSUMER CONFUSION IN QUALITY-CONTROL CASES

Under the Lanham Act, trademarks are primarily meant to designate the origin of goods, and the ultimate issue that must be decided in every trademark infringement case is whether the alleged infringement is likely to cause consumer confusion as to the origin of the goods. Even if one applauds the outcome of trademark in gray-market competition; and (2) case law applying trademark-related principles to the Tariff Act of 1930 and later interpreted by the Supreme Court in K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988)).

92. Davidoff v. PLD, 263 F.3d at 1300 n.4.

93. Id.

94. Société des Produits Nestlé, SA v. Casa Helvetia, Inc., 982 F.2d 633, 641 (1st Cir. 1992) (“There is no mechanical way to determine the point at which a difference becomes ‘material.’ Separating wheat from chaff must be done on a case-by-case basis.”).


96. Original Appalachian Artworks v. Granada Elecs., 816 F.2d 68, 74 (2d Cir. 1987) (Cardamone, J., concurring) (“The essential element of an action under § 32 of the Lanham Act . . . is a showing of the likelihood of consumer confusion as to source of origin.”); Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC, 562 F.3d 1067, 1071 (10th Cir. 2009) (“the central inquiry in a trademark infringement case is the likelihood of consumer confusion” as to source of goods); NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987); Paul Mitchell Sys. v. Pete-N-Larry’s, Inc., 862 F. Supp. 1020, 1023 (W.D.N.Y. 1994); see also Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492 (outlining the governing multiple-factor test for likelihood of consumer confusion in the Second Circuit).
Davidoff v. CVS, the decision appears to dispense with one of the fundamental requirements for application of the statute—the Second Circuit never explicitly connects the quality-control ground for infringement to a likelihood of consumer confusion as to the origin of the goods, the basis for trademark infringement.

In earlier cases, the sale of gray goods was deemed beyond the scope of the Lanham Act because courts found as a matter of law that consumer confusion was not possible where the sale of such goods was concerned “for the simple reason that consumers are not confused as to the origin of the goods: the origin has not changed as a result of the resale.”97 Applying this historical perspective to the facts in Davidoff v. CVS, one might argue that the CVS customer reaching for a bottle of gray-market COOL WATER fragrance with the UPC removed is not confused as to whether the product was originally made by Davidoff—the bottle was indeed made by Davidoff whether it is a gray good or not—and that, therefore, the Act has no power to prevent CVS from making the sale.

The Davidoff v. CVS district court stated that, although courts usually consider the Polaroid factors when considering the issue of likelihood of confusion, “in cases involving gray-market goods, a court will find a likelihood of confusion where the products are determined not to be ‘genuine’ for the purposes of trademark infringement.”98 This proposition is supported only by a citation to Original Appalachian Artworks v. Granada Electronics, Inc.,99 a case in which the gray goods were held “confusingly different” from those meant for sale in the United States, and several grounds for actual consumer confusion were discussed at length.100 Original Appalachian Artworks cannot be read as holding that the Lanham

97. Enesco Corp. v. Price/Costco Inc., 146 F.3d 1083, 1085 (9th Cir. 1998); accord Prestonettes, Inc. v. Coty, 264 U.S. 359, 368-69 (1924); Polymer I, 975 F.2d 58, 61 (2d Cir. 1992); NEC Elecs., 810 F.2d at 1509; Olympus Corp. v. United States, 792 F.2d 315, 321 (2d Cir. 1986); Paul Mitchell, 862 F. Supp. at 1023 (“Bluntly . . ., when the products are genuine—that is, identical and from the same origin—there is nothing that really would confuse consumers, at least nothing that the Lanham Act deems protectable, and the requisite consumer confusion can not be demonstrated”).


99. Id., citing Original Appalachian Artworks.

100. 816 F.2d 68, 73 (2d Cir. 1987) (CABBAGE PATCH KIDS dolls with Spanish papers differed materially from their American counterparts; customers were confused into buying Spanish dolls and were then disappointed when they could not register the dolls for “adoption” the way American dolls could be registered, because the Spanish paperwork was not compatible with the American “adoption” process).
Act can be ignored simply by deeming “ungenuine” otherwise genuine, trademarked products without material differences.\textsuperscript{101}

In affirming the district court in \textit{Davidoff v. CVS}, the Second Circuit did not repeat this ostensible holding from \textit{Original Appalachian Artworks}. Rather, the Second Circuit wrote several pages of policy reasons supporting its finding of infringement for interference with quality control, including: the significant role the UPC plays in fighting counterfeits;\textsuperscript{102} the assistance the UPC provides in protecting Davidoff’s brand from quality slippage;\textsuperscript{103} and the impairment of Davidoff’s marks caused by CVS’s interference with Davidoff’s ability to control the quality of its goods.\textsuperscript{104} The court acknowledged that “as a general rule, the Lanham Act does not impose liability for the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner because such a sale does not inherently cause confusion or dilution.”\textsuperscript{105} But the court never made a finding of likely consumer confusion based on the removal or absence of the UPCs (as opposed to the physical damage caused by the removal). After finding the COOL WATER bottles with UPCs removed “not genuine,” the court went straight to the \textit{Warner-Lambert} test regarding quality control and found infringement. The only comment about confusion comes at the very end of the decision, when the court writes that Davidoff’s evidence showed “a likelihood that the absence of codes increased the risk that consumers would unwittingly purchase counterfeit or defective product because of the disabling of Davidoff’s device to guard against these things.”\textsuperscript{106} This is the only confusion based on UPC removal to which the court alludes. But a “likelihood [of] increased risk that consumers would unwittingly purchase counterfeit or defective product”—what the Second Circuit found—is not the same as a “likelihood of confusion as to the origin of the goods”—especially where the goods in question were not counterfeit and not defective, but simply gray goods with UPCs removed.

\textsuperscript{101} El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986), actually \textit{can} be read to support this proposition, 806 F.2d 392 (2d Cir. 1986), but \textit{El Greco} is anomalous in this regard, as discussed later in this section. The standard pre–\textit{Davidoff v. CVS} rule—\textit{El Greco} notwithstanding—was that where there was no confusion or dilution, a trademark infringement claim would not lie. See, e.g., Dan-Foam A/S v. Brand Named Beds, 500 F. Supp. 2d 296, 307 n.88 (S.D.N.Y. 2007).

\textsuperscript{102} \textit{Davidoff v. CVS}, 571 F.3d at 240.

\textsuperscript{103} \textit{Id}.

\textsuperscript{104} \textit{Id}. at 242.

\textsuperscript{105} \textit{Id}. at 243 (citing \textit{Polymer II}, 37 F.3d 74, 78 (2d Cir. 1994)).

\textsuperscript{106} \textit{Id}. at 247.
It is not clear how the Second Circuit equated “increased risk” and “counterfeit or defective” products with “confusion as to the origin” of the actual goods in question in the case. The court did not find that consumers would be confused as to the source of the 16,600 units of COOL WATER fragrance at issue in the case. Rather, it rested its finding of ‘increased risk of unwitting purchase’ on the hypothetical future sale of counterfeits. The court opined that “removal of the codes makes it more difficult to detect counterfeits” and that “[r]egardless of whether the presence or absence of a code on an individual unit of Davidoff product establishes the authenticity of that unit, the removal of the codes exposes Davidoff to an increased risk that any given unit sold at retail will be counterfeit.”107 No other consumer confusion was discussed by the court in the context of interference with quality control—only this speculative future risk that removal of codes on the products at issue would cause future confusion with respect to potential counterfeit and/or defective goods—products not at issue in the case.

The Second Circuit also found that Davidoff would suffer irreparable injury—a condition for the preliminary injunction it upheld against CVS—on this same substitute for likelihood of consumer confusion as to source.108 As in other areas of the law, recovery for trademark infringement is based on actual harm—not on the possibility of future harm.109 The Davidoff v. CVS finding of infringement based solely on interference with the trademark owner’s right to control quality, even in the absence of any actual difference in quality or any stated likelihood of consumer confusion, is an extension in the reach of the Lanham Act. The Second Circuit appears to have created this extension by relying on a short line of its own quality-control cases that implies (without ever stating explicitly) that the quality-control ground

107. Id. at 244.
108. Davidoff v. CVS, 571 F.3d at 246-47. In cases involving claims of trademark infringement, a party seeking a preliminary injunction must demonstrate, inter alia, a likelihood of irreparable injury in the absence of such an injunction. Fed. Express v. Fed. Espresso, 201 F.3d 168, 173 (2d Cir. 2000). The Davidoff v. CVS court found that CVS’s use of Davidoff’s trademark created a likelihood of consumer confusion entitling Davidoff to a presumption of irreparable injury. 571 F.3d at 242, 247.
109. The court did find an alternate ground for its holding: the Second Circuit found the gray units held by CVS were also materially different from—and inferior to—genuine COOL WATER products because the bottles and boxes were damaged. Davidoff v. CVS, 571 F.3d at 246. But the court stated several times that this was “an additional basis, over and above” the quality-control basis for finding infringement and granting a preliminary injunction. Id.
either does not require a showing of a likelihood of confusion or includes such a showing by definition (i.e., confusion is presumed).

The “quality-control” ground for trademark infringement began in 1987, with the Second Circuit’s *El Greco* opinion.\(^{110}\) El Greco, the company holding the trademark for CANDIE’S shoes, contracted with a Brazilian manufacturer (Solemio) to make CANDIE’S shoes. Payment to Solemio was dependent on a certificate of inspection from El Greco’s agent, a company which was to inspect the shoes to make sure they met El Greco’s specifications and quality standards. El Greco canceled its order for the last two lots of shoes and no certificate of inspection was issued for the shoes in these lots, which had nevertheless been manufactured by Solemio. Solemio sold its CANDIE’S shoes to defendant Shoe World, which sold them for less than half the price El Greco was charging for the same shoes.\(^{111}\)

The District Court for the Eastern District of New York dismissed the trademark holder El Greco’s complaint, holding that the goods were genuine and that their sale thus did not give rise to a likelihood of confusion under the Lanham Act. The Second Circuit reversed, going so far as to state that “the district court erred as a matter of law when it held that the [goods] being sold without El Greco’s permission or even knowledge were ‘genuine’ [goods].”\(^{112}\)

Over the objections of one dissenter on the three-judge panel, the Second Circuit found the shoes—though physically identical to the ones being sold by El Greco—non-genuine, on the ground that Solemio had subverted El Greco’s quality-control measures. “One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder’s trademark. For this purpose the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain.”\(^{113}\) The court concluded that since the shoes were not genuine, El Greco had established a violation of Section 32(l) of the Lanham Act.\(^{114}\)

---


111. *Id.* at 393-94.

112. *Id.* at 395. This statement, implying that otherwise genuine goods, if sold without the manufacturer’s knowledge or permission, may be deemed “not genuine” was not the holding of the case, but is nevertheless a startling departure from traditional gray-goods (and first-sale and exhaustion rule) jurisprudence. Had it been seized upon, it would have changed the landscape of gray-goods litigation entirely.

113. *Id.* (citations omitted).

114. *Id.* at 396.
Before *El Greco*, goods were characterized as either “genuine” or “spurious,” with the former designation indicating that the goods emanated from the plaintiff and the latter identifying counterfeits or goods with another erroneous attribution of origin.\(^{115}\) The *El Greco* court stepped outside this historical duality when it found that non-inferior goods manufactured under the direction of the trademark owner and bearing the owner’s trademark could be deemed “not genuine.”\(^{116}\)

Further, the *El Greco* court believed that finding the shoes non-genuine was all it needed to find infringement. The Second Circuit, in a decision by Judge Pratt, briefly acknowledged that “[i]n order to make out a claim for trademark infringement, a holder must show, *inter alia*, that the alleged infringement is ‘likely to cause confusion, or to cause mistake, or to deceive.’”\(^{117}\) But it countered the district court’s dismissal of *El Greco*’s claims by saying, “[s]ince we conclude that the shoes were not genuine CANDIE’S shoes, it is plain that appellant has made out a violation of Section 32(1) of the Lanham Act.”\(^{118}\) The court engaged in no further discussion of confusion. In dissent, Judge Altimari pointed out that the court had neither discussed the likelihood of confusion nor visited the *Polaroid* factors.\(^{119}\) The *El Greco* case did not ignite an explosion of lawsuits (or even law review articles) but the decision began to be cited in the Second Circuit and by 1995 it had been cited at least once in every circuit. *El Greco* has come to stand for the proposition that the unauthorized disposition of goods without inspection deprives the owner of the right to control the product and could “mislead consumers into believing that the trademark owner had approved the goods for sale.”\(^{120}\) This “misleading customers” gloss on *El Greco* is not in the case itself, but seems to have been added by jurists looking for at least a proxy for confusion to explain the holding of the case. This proxy may be called the “implied sponsorship” confusion, in which customers are

\(^{115}\) *El Greco*, 806 F.2d at 398 (Altimari, J., dissenting).

\(^{116}\) Id.

\(^{117}\) Id. at 395 (quoting 15 U.S.C. § 1114(1)(a)).

\(^{118}\) Id. at 396.

\(^{119}\) Id. at 397 (Altimari, J., dissenting) (“Courts must . . . resolve the ultimate factual question in trademark infringement cases of whether there is any likelihood that an appreciable number of ordinary prudent purchasers are likely to be misled, or indeed simply confused as to the source of the goods in question.”) (internal quotation marks omitted).

\(^{120}\) Original Appalachian Artworks v. Granada Elecs., 816 F.2d 68, 72 (2d Cir. 1987).
not confused as to origin, but rather confused about whether the trademark owner “sponsored” the sale.  

According to Judge Cardamone in his concurring opinion in *Original Appalachian Artworks*, “trademark law . . . serves to guarantee the quality of the trademarked product. . . . Once one adopts the guarantee function of trademark law, it becomes clear that [the trademark owner] has a right to relief from potential consumer confusion as to whether it sponsored the importation of these genuine but inferior [products]. It is this violation of the mark owner’s right to control the quality of its product, that is to say its sponsorship, that is deemed confusion as to source.”

Thus, perhaps, the *El Greco* and *Davidoff v. CVS* cases should be read not truly as having dispensed with the requirement of consumer confusion, but rather to have relied on a presumption of confusion—that is, where genuine goods become not genuine because of interference with quality control, the likelihood of confusion with respect to these products should be presumed. Under this theory, the sale of the gray goods appears—wrongly—to be “sponsored” by the trademark owner, and the goods appear to have the trademark owner’s usual “guarantee” of quality, when, in fact, the owner’s quality-control measures have been undermined and the goods therefore do not carry this sponsorship and guarantee. This could be a convincing ground for—and maybe even justify a presumption of—likelihood of consumer confusion, but if that was the intent of the Second Circuit in *El Greco* and *Davidoff v. CVS*, the fact that the courts replaced a requirement for likelihood of consumer confusion with a presumption that such confusion exists has not been made explicit.

There is another way in which the Second Circuit might have worked around the need to conduct a *Polaroid*-style inquiry into likelihood of consumer confusion in *Davidoff v. CVS*. The *Warner-Lambert* decision, which provides the three-part test for quality

121. Id.

122. Id. at 76 (Cardamone, J., concurring) (“Recognizing that sponsorship includes quality control—and viewing the territorial sales restrictions imposed by [the trademark owner] as a means of quality control—it follows that . . . importation of dolls with Spanish birth certificates, adoption papers and instructions into the United States may confuse the public as to whether [the trademark owner] ‘sponsored’ the importation of what the public perceives to be inferior dolls. This confusion is sufficient to constitute a violation of the Lanham Act.”).

123. Note that a similar presumption has been made explicit with respect to the material-difference ground: “a material difference between goods simultaneously sold in the same market under the same name creates a presumption of consumer confusion as a matter of law.” Société des Produits Nestlé, SA v. Casa Helvetia, Inc., 982 F.2d 633, 640 (1st Cir. 1992).
control on which Davidoff v. CVS relies, established that
distribution of a product that does not meet the trademark holder's
quality-control standards “may result in the devaluation of the
mark by tarnishing its image” and “[i]f so, the non-conforming
product is deemed . . . not to be . . . genuine . . ., and its
distribution constitutes trademark infringement.”124 Here, the
proxy for confusion as to source is not “sponsorship” or
“guarantee,” but devaluation, dilution, and tarnishment of the
trademark owner’s brand. At least one other court has seen the
quality-control cases in this way.125

Cases such as El Greco and Warner-Lambert are primarily
focused on the goodwill and prestige associated with their
respective trademarks. Perhaps these cases, with their focus on
dilution and tarnishment, would have been decided under Section
43(c) of the Act126 had it existed when the opinions were written.
As noted in a recent Southern District of New York case:

When Warner-Lambert was decided, the first federal anti-
dilution act had just been passed by Congress. Since then,
Congress has passed the [Trademark Dilution Reform Act],
which further clarifies the elements of a trademark dilution
claim. In light of these changes to federal dilution law, the
third prong of the Warner-Lambert test casts trademark
actions predicated on differences in quality control as dilution-
based, rather than infringement-based. The third prong
requires a plaintiff to show that unauthorized sales of goods
that do not conform to the plaintiff’s quality-control standards
or procedures will diminish the value of plaintiff’s mark.
Protecting the value of a trademark owner’s mark from
negative consumer impressions about a mark, in contrast with
protecting against consumer confusion as to source or
sponsorship, is the precise basis of an action for dilution by
tarnishment under federal dilution law.127

Davidoff brought its action against CVS alleging, inter alia,
trademark infringement, unfair competition, and trademark
dilution in violation of Sections 32(1) and 43(a) and (c) of the

125. See Enesco Corp. v. Price/Costco Inc., 146 F.3d 1083, 1087 (9th Cir. 1998) (“Under
the quality control theory . . . [d]istribution of a product that does not meet the trademark
holder’s quality control standards may result in the devaluation of the mark by tarnishing
its image.”).
126. Unlike §§ 32(1) and 43(a), § 43(c) does not require consumer confusion for liability.
(internal citations and punctuation omitted).
Unlike Sections 32(1) and 43(a), Section 43(c), which covers dilution by blurring or dilution by tarnishment, specifically states that no showing of confusion is necessary. But both the Second Circuit and the district court decided the case under precedents predating the passage of Section 43(c). Nevertheless, to the extent the *Davidoff v. CVS* court seemed concerned with protecting Davidoff from the dilution by tarnishment involved with having its prestige fragrance products on sale at CVS, the case sounds like a Section 43(c) case. When the goods in question, such as fancy perfumes and colognes, draw part of their cachet from the establishments in which they are purchased (and perhaps even the elevated price at which they are sold), it is reasonable that part of the “quality control” associated with such goods is keeping them out of drug stores and other bargain establishments like CVS. One article discussing *Davidoff v. CVS* noted that, “trademarks do more than simply identify the source of a particular product. Rather, trademarks encapsulate a brand owner’s reputation, earned over time, as to quality, authenticity, and prestige, and the trademark laws protect the public’s resultant expectations.” The removal of the UPC “interferes with those expectations, threatens to harm both consumers and brand owners, and properly supports a claim for trademark infringement under the Lanham Act.”

The Second Circuit recently decided a case in which the sale of high-end mattresses by an unauthorized distributor without the manufacturer’s packaging or quality-control measures, stated a claim for trademark dilution in violation of Section 43(c) of the Lanham Act. It will be interesting to see whether more gray-goods cases are filed under the new anti-dilution section of the Act, which so far has not been used extensively in the gray-goods context but seems well suited to it.

---


129. 15 U.S.C. § 1125(c)(1) (“the owner of a famous mark ... shall be entitled to an injunction against another ... who ... commences use of a mark ... in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury”).


131. *Id.*


133. Indeed, the anti-dilution rationale is relevant to all trademarked goods, not just those sold on the gray market. It should be reiterated that *Warner-Lambert* was not a gray-goods case. 86 F.3d 3, 6 (2d Cir. 1996) (sales by authorized wholesaler interfered with trademark owner’s quality-control procedures; third prong of “quality-control” test is that
VII. QUALITY CONTROL OR MARKET CONTROL?
LIKELY EFFECTS OF DAVIDOFF v. CVS

CVS argued that Davidoff’s UPC system was a pretext, and that the true purpose of the UPCs on COOL WATER bottles is not Davidoff’s control over the quality of its products but rather Davidoff’s control over their distribution. Trademark owners unable to avail themselves of Lanham Act protection against competition from gray versions of their own goods can pursue contract remedies against distributors who subvert their agreements by selling outside authorized channels, but it is often impossible for the trademark owner to figure out which of its authorized distributors is in breach, without filing suit or serving a subpoena. CVS contended that the real purpose of the UPC is to allow Davidoff to track which distributor’s units have made their way to unauthorized retailers. Obviously, the UPCs are not ground off bottles and cut from boxes to make the products more appealing to customers or retailers—they are removed to hide the identity of the distributor from the trademark owner. For instance, PLD admitted that it tampered with the codes specifically to “prevent Davidoff from discovering who sold the fragrances to PLD because Davidoff would stop selling to those vendors.”

CVS pointed out that Davidoff did not train its retailers (or its customers) in the use of the UPC for quality control and that Davidoff had never actually enacted a targeted recall of the kind sales of products that fail to conform to quality-control procedures will “diminish the value of the mark”). The Davidoff v. CVS court claimed that it was not deciding “whether, or under what circumstances, the sale of gray-market goods infringes their trademark,” and conceded that, as a general rule, the Lanham Act does not impose liability for the sale of gray-market goods. 571 F.3d at 243. The court insisted that it was upholding the injunction “on the basis that the removal of Davidoff’s codes interfered unlawfully with Davidoff’s trademark rights regardless of whether the goods were originally authorized by Davidoff for sale in the United States or elsewhere.” Id. The court thus rested its ruling on the tampering with UPCs, and not on the fact that the units CVS was selling were gray goods; the court held that removal of the UPC is infringement, whether the goods are gray-market goods or goods sold pursuant to authorized distribution channels. Id. Accord Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC, 562 F.3d 1067, 1072 n.4 (10th Cir. 2009) (recognizing that precedents relating to “typical” gray-market goods—goods that bear a United States trademark, are authorized for exclusive sale in a foreign country, and are subsequently imported and sold in the United States without the trademark owner’s consent—apply with equal force to goods that, while intended for sale in the United States, are sold without the trademark owner’s consent and all of its guarantees of quality, because these goods similarly deserve “legal recognition of the role of domestic business in establishing and maintaining the reputation and goodwill of a domestic trademark”) (citations omitted).

134. Davidoff v. CVS, 571 F.3d at 245.
135. Davidoff v. PLD, 263 F.3d at 1299.
the UPC system is alleged to facilitate. Although Davidoff’s Vice President for Regulatory Affairs and Quality Assurance testified that Davidoff had relied on the UPC system to assist with quality issues, including under- or over-filled bottles, defective dispensers, and improper packaging, he did not testify that any recalls had taken place. It is probable that Davidoff has relied on the UPC far more heavily, as evidenced in suits like *Davidoff v. PLD* and *Davidoff v. CVS*, to pursue middlemen and sellers who get their goods from gray-market distributors, and to deter the distributors themselves, than to help Davidoff control the quality of its perfume and cologne.

Some critics argue that if a trademark owner “chooses to sell abroad at lower prices than those it could obtain for the identical product here, that is its business. In doing so, however, it cannot look to United States trademark law to insulate the American market or to vitiate the effects of international trade. This country’s trademark law does not offer [the trademark owner] a vehicle for establishing a worldwide discriminatory pricing scheme.” Similarly, commentators have argued that the Lanham Act has been used more for corporate protection where gray goods are concerned than for consumer protection, upsetting the balance between the two that was intended by the statute.

In response to the allegation by CVS that Davidoff’s use of the UPC as a quality-control mechanism is a pretext, the Second Circuit found that, even if the UPC system “also may allow Davidoff to ensnare distributors operating outside the authorized distribution and retail network and to identify importers of gray-market goods,” as long as the system is a bona fide control device upon which Davidoff actually relies—and does not “serve[] only to help Davidoff exert control over the distribution and sales network”—the court will treat the system as a legitimate means for protecting marks. This acknowledged awareness by the court that the UPC serves to police gray goods, coupled with the paucity of evidence that Davidoff relies much on the UPC for quality control, raises the question whether the court sees the new per se protection it has given to the UPC as necessary to provide relief to trademark holders against competition from gray goods. Certainly, many trademark holders reading *Davidoff v. CVS* will now

---

136. 571 F.3d at 245.
137. *Id.*
138. NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1511 (9th Cir. 1987).
139. *See*, *e.g.*, Wooden, *supra* note 7 at 574-75.
140. *Id.*
consider ramping up or creating new quality-control programs to take advantage of this newly protected way to track products as they move through the market.\textsuperscript{141}

To be sure, both the court and Davidoff also expect the UPC to deter counterfeiters and to allow detection of counterfeit goods in the market. Historically, however, cases dealing with counterfeiters have not been framed as quality-control (or material-difference) cases, and quality-control and material-difference cases have not been about counterfeits, but rather about gray goods.\textsuperscript{142} In \textit{Davidoff v. CVS}, the court applied all the rhetorical strength of its arguments against counterfeit products in the context of a case about gray goods.

The goods in question in \textit{Davidoff v. CVS} were only the 16,600 units of trademarked COOL WATER fragrance from which the UPCs had been removed.\textsuperscript{143} The court nevertheless found “a likelihood that the absence of codes increased the risk that consumers would unwittingly purchase counterfeit or defective product because of the disabling of Davidoff’s device to guard against these things.”\textsuperscript{144} As discussed in Section VI, supra, one of the curiosities in \textit{Davidoff v. CVS} is that the court’s quality-control holding—and its only finding of confusion for that ground—is based on ills flowing from the future sale of counterfeits, rather than on remedying the actual gray-goods harm immediately before the court. Basing its reasoning on reducing counterfeiters, but applying the injunction against gray goods—or, put another way, reaching out to right wrongs not yet before the court, and meanwhile applying the new ruling to the actual goods before the court—is one indication that the court may have been using the dispute between Davidoff and CVS to give trademark owners generally a new tool to be used against both counterfeiters and distributors of gray goods alike.

\textit{Davidoff v. CVS} is likely to have multiple effects. Trademark owners are likely to use UPCs more frequently—when practicable—and to institute quality-control policies generally that meet the \textit{Warner-Lambert} three-part test.\textsuperscript{145} Removal of UPCs and

\begin{flushleft}
141. See Section VIII, infra, for what such a program might entail.


143. \textit{Davidoff v. CVS}, 571 F.3d at 242.

144. Id. at 247.

145. To benefit from \textit{Davidoff v. CVS}, trademark owners will have to show that their quality-control policy is a bona fide policy on which they actually rely. Brand owners will
\end{flushleft}
perhaps interference with other quality-control measures will likely be more frequently held as the basis for findings of trademark infringement against sellers of gray goods. Further, if CVS appeals the case and the Supreme Court denies certification, the denial will be seen as tacit approval of the holding, and we can expect to see more litigation in this vein in other circuits.  

Distributors and wholesalers who deal in gray-market goods will now have to either risk liability under Davidoff v. CVS for removal of UPCs (which will likely appear more frequently, at least on luxury goods whose price warrants the extra cost of applying such codes), or leave the tracking codes on, and risk being discovered as the party who is subverting the trademark owner's authorized distribution plan and diverting the goods to the gray market, which risk includes losing their contracts with the mark holders. Retailers who rely on gray sales will similarly have to choose between the risk of being sued for selling goods with UPCs removed and losing the profits they make on their sales of gray goods that carry UPCs. Retailers of gray goods have a powerful incentive to increase their profit margins by selling prestige brands without having to pay for the premium marketing space that generally supports premium-brand prices. Davidoff v. CVS may deter these sales by increasing the cost to retailers of gray goods through product seizures and lawsuit damages. Litigation, itself a cost, is not always a desirable choice for trademark holders, but Davidoff v. CVS does make that option more promising.

Counterfeiters will also be affected by the Davidoff v. CVS ruling. They may already have learned to include a phony UPC on their counterfeit products, and they already presumably lose some of their inventory when these phony UPCs are detected and their goods are confiscated or refused. But if more mark holders begin to apply UPCs to their products, counterfeiters, too, will have to try to imitate them more frequently, and will now find more of their goods detected and confiscated, either for lack of a UPC, or because the UPC is obviously fake.

Trademark holders will certainly benefit from the ruling, especially if it is followed in other circuits; they have been given a new tool with which to fight both counterfeits and gray goods. The UPC will deter counterfeiters and will make distributors less likely to divert genuine goods from their intended channels of distribution onto the gray market.

likely articulate their policies in written documents, and these policies may increasingly include UPCs or similar devices.

146. See text and accompanying footnote, supra note 30.
Consumers are believed to get more protection because of the chilling effect on counterfeit goods. The incentive that Davidoff v. CVS gives to trademark holders to increase their reliance on UPCs means that fewer counterfeits are likely to survive inspections and reach the marketplace and consumers. Similarly, fewer gray goods will make it to market. Many consumers, however, rely on gray goods and counterfeits to give them access to products—or facsimiles of products—they could not otherwise afford. A gray good, especially, is often seen as “the real thing”—only it costs less. Maybe Carmela doesn’t mind that her husband paid half price at CVS for the same “prestige” product he could have paid twice as much for at Bergdorf’s. Consumers are not stupid, and it is common knowledge that if a high-end product appears at CVS or Costco with a piece of the box cut out, the product has likely traveled on the gray market. Davidoff v. CVS makes it less likely that consumers will be able to find these “bargain” goods. This development is a boon for trademark holders, but may not be welcomed by consumers generally, who may take for granted the benefit they receive from quality-control measures implemented by the use of UPCs, not realizing that this quality is threatened by gray-market sales.

VIII. A PRACTICAL GUIDE:
STEPS TRADEMARK OWNERS CAN TAKE TO AVAIL THEMSELVES OF THE UPC PROTECTION

A trademark owner wishing to take advantage of the new protection given to the UPC by Davidoff v. CVS will have to show that its use of the UPC is an integral part of a bona fide quality-control program that the trademark owner actually follows.147 Simply affixing UPCs to products is not enough.148

The wise trademark owner will establish, and document in writing, a quality-control policy appropriate to the trademark owner’s industry, size, distribution methods and network, and the

147. See Polymer II, 37 F.3d at 78-79 (no infringement where trademark owner “did not carefully police any procedures it may have had in place”—Polymer itself placed in the market products that were improperly labeled under its alleged quality-control policy); Iberia Foods Corp. v. Romeo, 150 F.3d 298, 304-05 (3d Cir. 1998) (quality-control measure found pretextual: “[b]y limiting its inspection to ‘self-evident’ defects, Iberia does no more than weed out those bottles of MISTOLIN that are entirely unsaleable on the open market”); Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., 988 F.2d 587, 592 (5th Cir. 1993).

148. See Davidoff v. CVS, 571 F.3d at 244-45; Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3, 6-7 (2d Cir. 1996); Polymer II, 37 F.3d 74, 79 (2d Cir. 1994).
product(s) it makes. Because it should be clear how the UPC fits into and enhances the quality-control program, the trademark owner should specify how the UPC is to be used at each stage of the policy, from the time the UPC is created and affixed to the product up to and including the time the product is in the hands of the consumer. It is not necessary that the quality-control policy be the most stringent policy possible; the policy should be one that makes sense from a business perspective and provides information and control commensurate with the expense of enforcing the policy and the nature of the trademark owner’s business. The qualities the policy is meant to control must include qualities that consumers find relevant.

Given the precedents in this area, it is advisable that the trademark owner be able to use the UPC to facilitate targeted recalls based on quality issues relevant to the product. For this purpose, and depending on the product and the industry, the UPC itself should contain information about the product’s date and location of manufacture and other critical information relevant to the product’s quality (e.g., expiration date or ingredients used, etc.), and the trademark owner should also have an established procedure for documenting which distributors and retailers have taken possession of particular runs of UPC numbers. In the event of a recall, the trademark holder should be able to use the UPC to identify the source of product defects, that is, whether the defect is unique, one of a number of random instances, common to a certain batch, or product-wide. Although the owner need not actually conduct large-scale recalls, ideally it should make the decision not to conduct a recall based on the quality-control protocol it has established.

The trademark owner should train relevant employees and distributors to use the quality-control program and the UPCs, and,

149. Warner-Lambert, 86 F.3d at 7-8.
150. Id. at 6 (third prong of test requires that non-conforming sales diminish the value of the mark). Obviously, different types of products have different quality concerns (e.g., expiration dates, contamination, melting, etc.).
151. Recalls have specifically been mentioned as an important quality-control function. See, e.g., Davidoff v. CVS, 571 F.3d at 245; John Paul Mitchell Sys. v. Pete-N-Larry’s, Inc., 862 F. Supp. 1020, 1026 (W.D.N.Y. 1994).
152. See Davidoff v. CVS, 571 F.3d at 245; Warner-Lambert, 86 F.3d at 7. It may be unnecessary to have recalled any products at all. CVS argued that Davidoff had never actually used its UPC system to recall products, Davidoff v. CVS, 571 F.3d at 245, and in rejecting the argument, the court noted that it is the right to control quality and the existence of the procedures that matter for trademark infringement purposes. Id. at 243, 246 (emphasis added).
if appropriate, the Customs Service should be made aware of the trademark owner’s UPC system, so it can identify counterfeits. Every time a product defect or counterfeit is discovered, the mark holder should document all procedures followed, including any use made of the UPC. Documentation is important because it provides proof that the trademark owner abides by the policy and actually uses the UPC for quality-control purposes.

If the trademark owner keeps track of which UPCs go to particular distributors and retailers (as it should to facilitate recalls and other quality-control measures), it will also be able to monitor the progress of its goods through the distribution chain from manufacture to final sale. This information may prove invaluable in monitoring the behavior of distributors and deterring them from subverting their agreements with the trademark owner. Although the UPC may thus serve multiple functions, including discouraging distributors from making unauthorized sales, mark owners must be cognizant that at least one function the UPC must serve is the legitimate control of product quality.

IX. CONCLUSION

In making the removal of a legitimate quality-control UPC tantamount to per se infringement in Davidoff v. CVS, the Second Circuit has given trademark owners a potentially powerful tool to combat both counterfeit and gray goods under the Lanham Act. As long as a trademark owner establishes and abides by a bona fide quality-control program that includes the use of UPCs, a seller’s removal of the UPC will infringe the trademark of the product to which it is affixed; a case-by-case analysis of material differences is no longer necessary. Other jurisdictions may well adopt the quality-control reasoning of Davidoff v. CVS, just as they have adopted other Second Circuit trademark rulings (and just as other

153. Examples of information to record might include: (1) the UPC of the offending product(s); (2) when and how the UPCs were used to identify the source of the problem; (3) how the UPCs and quality-control protocol were helpful to determine the nature and source of the problem; (4) communications involving quality-control team members; (5) decisions and actions regarding the necessity of a recall, small or large (this should be noted even if a recall is deemed unnecessary); and (6) any follow-up procedures.

154. Davidoff v. CVS, 571 F.3d at 244-45; Warner-Lambert, 86 F.3d at 6 (step (ii) of test); Polymer II, 37 F.3d 74, 78-79 (2d Cir. 1994) (no injunction in part because owner failed to comply with its procedures).

155. For example, in Davidoff v. CVS, the information in the UPCs permitted Davidoff to identify under-filled or over-filled bottles, defective dispensers, improper packaging, and counterfeits. 571 F.3d at 244-45.

156. Id. at 245.
jurisdictions, including the Second Circuit, have adopted the First Circuit’s *Nestle* holding on the issue of material difference).

*Davidoff v. CVS* is also interesting for the questions it raises about: the evolving and expanding meaning of “consumer confusion as to origin”; the circumstances under which such confusion is to be presumed; the possibility of broadening the definition of confusion to include fresh considerations, such as the impact rulings have on counterfeiting; the importance of the “sponsorship” and “guarantee of quality” functions of trademarks; and the possible greater use of Section 43(c) of the Lanham Act, which protects against trademark dilution.

Trademark holders reading *Davidoff v. CVS* may now consider creating (or strengthening already-established) quality-control programs and incorporating UPCs into these programs, to take advantage of this newly protected way to track products as they move through the market. It will be interesting to see whether and how *Davidoff v. CVS* affects the future marking of goods, the volume of goods on the gray market, and the relationships between trademark holders, distributors, and retailers. It will also be interesting to see whether courts outside the Second Circuit use the quality-control infringement ground more frequently, whether this affects the development of the material-difference ground, and what other effects *Davidoff v. CVS* may have on gray-goods jurisprudence in the Second Circuit and across the country.